

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** (unaudited)

As management of Chesterfield County (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal at the front of this report and the County's financial statements, which follow this analysis.

### **FINANCIAL HIGHLIGHTS**

- ◆ The County's total net assets increased approximately \$77.2 million (7.0%). Net assets of the governmental-type activities increased \$40.3 million (8.6%) and net assets of the business-type activities increased \$36.9 million (5.8%).
- ◆ The County's unrestricted net assets increased approximately \$16.7 million (6.9%). Unrestricted net assets of the governmental-type activities increased \$6.7 million (7.7%) and unrestricted net assets of the business-type activities increased \$10.0 million (6.5%).
- ◆ The County's program and general revenues (including taxes) of \$643.8 million for governmental-type activities (excluding special items, extraordinary losses and transfers) exceeded expenses of \$587.5 million by \$56.3 million.
- ◆ In the County's business-type activities, revenues increased 20.1% to \$93.3 million while expenses increased by 15.8% to \$54.3 million (excluding special items, extraordinary losses and transfers).
- ◆ The total cost of the County's primary government's programs increased approximately \$12.8 million (2.0%) to \$641.8 million.
- ◆ The General Fund reported an ending fund balance amount of \$141.1 million, an increase of \$26.3 million (22.9%) in comparison with the prior year. Of the ending fund balance amount, \$56.3 million was unreserved and undesignated.
- ◆ The County's outstanding debt increased by \$23.4 million (5.2%). General obligation improvement and refunding bonds were issued in the amount of \$36.8 million, certificates of participation were issued in the amount of \$14.5 million, a taxable redevelopment facility note was issued for \$9.2 million, capital lease purchases were entered into for \$1.9 million and a support agreement was entered into for \$18.1 million. The effect of issuing new debt exceeded the effect of the principal payments on and the defeasement of existing debt.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The County's Comprehensive Annual Financial Report (CAFR) consists of four sections: introductory, financial, statistical, and compliance. The financial section consists of five components – the independent auditors' report, management's discussion and analysis (this component), the financial statements, required supplementary information, and supplementary information. The financial statements include three categories of statements that present different views of the County:

- ◆ The first two statements are government-wide financial statements that provide a broad overview of both long-term and short-term information of the County's financial status.
- ◆ Exhibits III thru X are fund financial statements. The fund financial statements focus on individual parts of the County government and report the County's operations in more detail than the government-wide statements:
  - Governmental fund statements tell how general government services, such as public safety, are financed in the short-term as well as what resources remain for future spending.
  - Proprietary fund statements offer both short-term and long-term financial information about activities the government operates like private-sector businesses, such as the water and wastewater systems.
  - Fiduciary fund statements provide information about the financial relationships, such as the supplemental retirement plan for certain qualified County employees, in which the County acts solely as a trustee or agent for resources belonging to others.
- ◆ The remaining statements are combining statements that provide a broad overview of both long-term and short-term information on the County's component units.

The notes, a component of the financial statements, provide additional details for understanding the information presented in the CAFR. The notes are followed by a section of required supplementary information that further explains and supports the pension plan information reported in the financial statements. The CAFR also includes a supplementary section containing combining schedules for the non-major governmental funds, the agency funds and the internal service funds, additional schedules and School Board component unit fund statements and schedules.

## **Government-wide Statements**

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector businesses. The Statement of Net Assets includes all of the government's assets and liabilities, both short-term and long-term. The Statement of Activities reports all of the current year's revenues and expenses as soon as the underlying event for recognition occurs, regardless of the timing of the related cash flows. The government-wide statements report the County's net assets and how they have changed. Net assets, the difference between the County's assets and liabilities, is a measure of the County's financial health, or position:

- ◆ Over time, increases or decreases in the County's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- ◆ To assess the overall health of the County, CAFR users should consider additional nonfinancial factors such as changes in the County's property tax base.

The government-wide financial statements of the County are divided into three categories:

- ◆ Governmental activities – Most of the County's basic services, such as police, fire, social services, parks and recreation, and general administration, are included in governmental activities. Property taxes and state and federal funding finance the majority of these activities' expenses.
- ◆ Business-type activities – Activities that are intended to recover all or a significant portion of their costs through user fee charges to external parties for goods or services are included in the business-type activities.
- ◆ Component units – The County includes three other entities in its report: the School Board, the Health Center Commission and the Industrial Development Authority of the County of Chesterfield (IDA). Although legally separate, these component units are presented in the County's CAFR because the County demonstrates financial accountability for them by providing operating, capital or debt funding.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the County's major funds and not the County as a whole. Funds are accounting devices that the County uses to track resources that are segregated for specific activities or objectives. Some funds are required by state law or by bond covenants. Other funds are established to control and manage money for particular purposes or to show that the County is using certain taxes and grants for their intended purposes.

The County has three kinds of funds:

- ◆ Governmental funds – Most of the County's basic services are included in governmental funds which focus on (1) how cash and other financial assets that are readily convertible to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the statements for governmental funds provide a detailed short-term view that assists the CAFR reader in determining the status of financial resources available for financing the County's programs in the near future. Because this information does not encompass the additional long-term focus of the government-wide statements, the County provides additional information, either at the bottom of the governmental funds statement or on the following page, that explains the differences between the short-term and long-term focus.
- ◆ Proprietary funds – Services that are intended to recover all or a significant portion of their costs through user fees are reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both long-term and short-term financial information and they also provide additional details and information, such as the Statement of Cash Flows. The County's enterprise funds are reported in the business-type activities of the government-wide statements because these funds generally provide services to customers external to the County. The internal service funds are reported in the governmental-

type activities of the government-wide statements because those funds provide supplies and services internally to the County's other programs and activities.

- ♦ Fiduciary funds – The County is responsible, as trustee, for the assets of various trust and agency funds that can be used only for the fiduciary beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. These activities are excluded from the County's government-wide financial statements because the County cannot use fiduciary assets to finance its operations.

## FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

**Net assets.** The County's assets exceeded liabilities by \$1.2 billion at the close of the most recent fiscal year. This represents a 7.0% increase over the prior year.

**TABLE 1**  
**Chesterfield County's Net Assets**  
**June 30, 2005 and 2004**  
**(in millions of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>		<b>School Board Component Unit</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Assets</b>								
Current and other assets	\$ 415.5	\$ 398.8	\$ 208.7	\$ 203.8	\$ 624.2	\$ 602.6	\$ 47.2	\$ 55.3
Capital assets	<u>752.8</u>	<u>690.2</u>	<u>516.5</u>	<u>486.7</u>	<u>1,269.3</u>	<u>1,176.9</u>	<u>11.8</u>	<u>10.6</u>
<b>Total assets</b>	<b><u>1,168.3</u></b>	<b><u>1,089.0</u></b>	<b><u>725.2</u></b>	<b><u>690.5</u></b>	<b><u>1,893.5</u></b>	<b><u>1,779.5</u></b>	<b><u>59.0</u></b>	<b><u>65.9</u></b>
<b>Liabilities</b>								
Long-term liabilities	479.0	450.8	24.5	27.9	503.5	478.7	20.7	18.2
Other liabilities	<u>179.8</u>	<u>169.0</u>	<u>30.0</u>	<u>28.8</u>	<u>209.8</u>	<u>197.8</u>	<u>29.1</u>	<u>43.1</u>
<b>Total liabilities</b>	<b><u>658.8</u></b>	<b><u>619.8</u></b>	<b><u>54.5</u></b>	<b><u>56.7</u></b>	<b><u>713.3</u></b>	<b><u>676.5</u></b>	<b><u>49.8</u></b>	<b><u>61.3</u></b>
<b>Net assets</b>								
Invested in capital assets, net of related debt	394.6	360.3	491.8	461.5	886.4	821.8	11.8	10.6
Restricted	21.2	21.9	14.7	18.1	35.9	40.0	6.5	4.4
Unrestricted (deficit)	<u>93.7</u>	<u>87.0</u>	<u>164.2</u>	<u>154.2</u>	<u>257.9</u>	<u>241.2</u>	<u>(9.1)</u>	<u>(10.4)</u>
<b>Total net assets</b>	<b><u>\$ 509.5</u></b>	<b><u>\$ 469.2</u></b>	<b><u>\$ 670.7</u></b>	<b><u>\$ 633.8</u></b>	<b><u>\$ 1,180.2</u></b>	<b><u>\$ 1,103.0</u></b>	<b><u>\$ 9.2</u></b>	<b><u>\$ 4.6</u></b>

At the end of both the current and prior fiscal years, the County reported positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. The largest portion (75.1%) of the County's net assets at June 30, 2005, is its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less accumulated depreciation and any debt used to acquire those assets that remains outstanding at year-end. The County uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay the debt must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt. An additional portion of the County's net assets (3.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance is referred to as unrestricted net assets (21.9%). Unrestricted net assets are available to meet the County's ongoing obligations to residents and creditors.

School Board component unit assets exceeded liabilities by \$9.2 million at the end of the current fiscal year. This represents an increase of \$4.6 million (100.0%) compared to the prior year (see Table 1). Net assets, invested in capital assets, net of related debt, increased by \$1.2 million because capital outlay exceeded depreciation expense. The School Board reported a deficit unrestricted net assets of \$9.1 million due primarily to

funding liabilities related to judgments, claims, and compensated absences of \$19.9 million, which increased by \$2.5 million compared to the prior year, on a pay as you go basis.

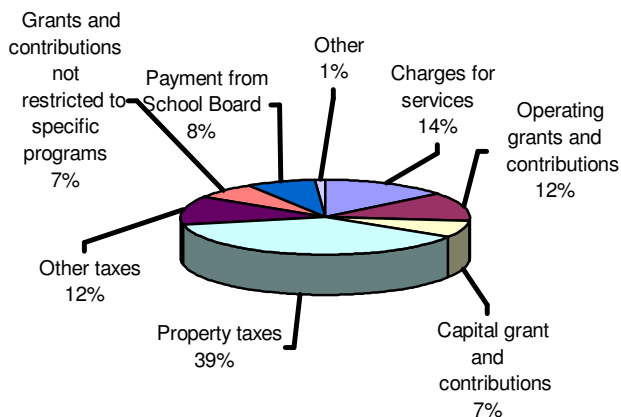
**Changes in net assets.** The County's total revenues (excluding special items, extraordinary losses and transfers) increased over the prior year by 5.3% to \$737.1 million (see Table 2). The total cost of all programs increased by 2.0% to \$641.8 million (see Table 2).

**TABLE 2**  
**Changes in Chesterfield County's Net Assets**  
**For the Years Ended June 30, 2005 and 2004**  
**(in millions of dollars)**

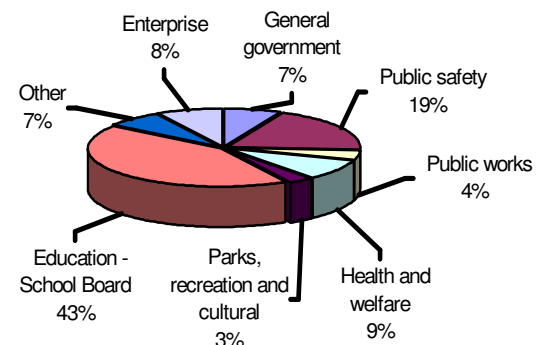
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>		<b>School Board Component Unit</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>Revenues:</b>								
<b>Program revenues:</b>								
Charges for services	\$ 55.7	\$ 48.8	\$ 49.7	\$ 45.9	\$ 105.4	\$ 94.7	\$ 15.6	\$ 14.0
Operating grants and contributions	89.6	79.6	-	-	89.6	79.6	72.0	54.4
Capital grants and contributions	14.0	13.2	40.2	30.0	54.2	43.2	-	0.1
<b>General revenues:</b>								
Property taxes	280.6	252.7	-	-	280.6	252.7	-	-
Other taxes	90.7	86.0	-	-	90.7	86.0	-	-
Payment from School Board	56.7	93.4	-	-	56.7	93.4	-	-
Payment from County	-	-	-	-	-	-	253.3	280.4
Grants and contributions not restricted to specific programs	51.8	46.4	-	-	51.8	46.4	131.1	121.2
Other	<u>4.7</u>	<u>2.3</u>	<u>3.4</u>	<u>1.8</u>	<u>8.1</u>	<u>4.1</u>	<u>0.8</u>	<u>0.8</u>
<b>Total revenues</b>	<b><u>643.8</u></b>	<b><u>622.4</u></b>	<b><u>93.3</u></b>	<b><u>77.7</u></b>	<b><u>737.1</u></b>	<b><u>700.1</u></b>	<b><u>472.8</u></b>	<b><u>470.9</u></b>
<b>Expenses:</b>								
General government	45.7	38.2	-	-	45.7	38.2	-	-
Administration of justice	9.3	8.4	-	-	9.3	8.4	-	-
Public safety	121.7	111.3	-	-	121.7	111.3	-	-
Public works	24.8	20.2	-	-	24.8	20.2	-	-
Health and welfare	57.0	52.0	-	-	57.0	52.0	-	-
Parks, recreation and cultural	20.2	20.4	-	-	20.2	20.4	-	-
Education - School Board	275.1	301.5	-	-	275.1	301.5	468.2	474.7
Community development	14.0	12.9	-	-	14.0	12.9	-	-
Interest on long-term debt	19.7	17.2	-	-	19.7	17.2	-	-
Airport	-	-	1.6	1.2	1.6	1.2	-	-
Water	-	-	24.4	22.0	24.4	22.0	-	-
Wastewater	-	-	28.3	23.7	28.3	23.7	-	-
<b>Total expenses</b>	<b><u>587.5</u></b>	<b><u>582.1</u></b>	<b><u>54.3</u></b>	<b><u>46.9</u></b>	<b><u>641.8</u></b>	<b><u>629.0</u></b>	<b><u>468.2</u></b>	<b><u>474.7</u></b>
<b>Increase (decrease) in net assets before special item,</b>								
<b>extraordinary loss and transfers</b>	<b>56.3</b>	<b>40.3</b>	<b>39.0</b>	<b>30.8</b>	<b>95.3</b>	<b>71.1</b>	<b>4.6</b>	<b>(3.8)</b>
Special item	(18.1)	-	-	-	(18.1)	-	-	-
Extraordinary loss	-	(1.8)	-	(0.6)	-	(2.4)	-	(0.4)
Transfers	<u>2.1</u>	<u>1.2</u>	<u>(2.1)</u>	<u>(1.2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<b>40.3</b>	<b>39.7</b>	<b>36.9</b>	<b>29.0</b>	<b>77.2</b>	<b>68.7</b>	<b>4.6</b>	<b>(4.2)</b>
<b>Net assets - July 1</b>	<b><u>469.2</u></b>	<b><u>429.5</u></b>	<b><u>633.8</u></b>	<b><u>604.8</u></b>	<b><u>1,103.0</u></b>	<b><u>1,034.3</u></b>	<b><u>4.6</u></b>	<b><u>8.8</u></b>
<b>Net assets - June 30</b>	<b><u>\$ 509.5</u></b>	<b><u>\$ 469.2</u></b>	<b><u>\$ 670.7</u></b>	<b><u>\$ 633.8</u></b>	<b><u>\$ 1,180.2</u></b>	<b><u>\$ 1,103.0</u></b>	<b><u>\$ 9.2</u></b>	<b><u>\$ 4.6</u></b>

Approximately 39% of the County's revenues came from property taxes and approximately 12% comes from other taxes. Another 26% of the total revenue came from grants and contributions. The remaining revenues are charges for services, payment from School Board, investment earnings and miscellaneous (see Figure A-1). The County's expenses cover a range of services with 71% related to public safety, health and welfare and education (see Figure A-2). Program revenues of the County's governmental activities covered 27% of its expenses.

**Figure A-1**  
**Chesterfield County**  
**Sources of Revenue for Fiscal Year 2005**



**Figure A-2**  
**Chesterfield County**  
**Functional Expenses for Fiscal Year 2005**



The School Board's total revenues increased compared to the prior year by 0.4% to \$472.8 million. The total expenses of all School programs and services decreased over the prior year by 1.4% to \$468.2 million. Program revenues of School Board activities covered 18.7% of its expenses.

## Governmental Activities

Governmental activities increased the County's net assets by \$40.3 million and accounted for 52.2% of the total growth in the net assets of the County. Revenues for governmental activities increased \$21.4 million (3.4%) and total expenses increased \$5.4 million (0.9%) when compared to the prior year. Key elements of these changes are as follows:

- ◆ Property tax revenues increased by \$27.9 million (11.0%) overall during the year. This increase is due to a 10.7% increase in the assessed valuation of taxable real and personal property over the preceding year. Real property's assessed valuation increased 11.5% over the last fiscal year. Of the real property increase, 32.0% is due to new residential construction, 6.9% is due to new commercial/industrial construction, and 61.1% is due to revaluation and changes of existing properties. Commercial and industrial property comprised 21.4% of the total real property taxable value. The real estate tax rate was \$1.07 per \$100 of assessed value and was effective for both the current and prior fiscal year. Growth of 12.1% in personal property values resulted from an increase in new and used car registrations in the County. The Personal Property Tax Relief Act of 1998 (PPTRA) provides for the Commonwealth to reimburse localities a portion of the personal property tax levied on the first \$20,000 of personal use cars, motorcycles, and trucks. For tax years 2005 and 2004, the reimbursement rate was 70%. The Commonwealth requires localities to record the revenue from PPTRA as received from other governments, not as property taxes. When the Commonwealth reimbursement is added back to property taxes, there is an increase of \$32.1 million (11.1%) over the prior fiscal year.
- ◆ The payment from School Board decreased by \$36.7 million (39.3%) over the prior year. Payments related to refunding bonds issued by the County on behalf of the School Board decreased by \$35.5 million. There was a decrease of \$1.3 million related to the current fiscal year's debt service payments made on behalf of the

School Board. The remaining difference of \$0.1 million is attributable to an increase in miscellaneous transactions that occur between the County and the School Board related primarily to capital assets.

- ◆ Overall, expenses of governmental activities increased by \$5.4 million (0.9%). Functional categories experienced increases or decreases compared to the prior year. Pension funding requirements attributed to a large increase in employee benefit expenses in each functional category. The pension funding level for County employees increased from a rate of 10% to 14.25%, an overall increase of 42.5% and costing approximately \$4.9 million. In addition, the County funded a 4% merit increase for employees. The Education – School Board function decreased by \$26.4 million (8.8%) due to a decrease of \$36.4 million in general obligation improvement and refunding bonds issued on the School Board's behalf in the current fiscal year and an increase of \$10.0 million provided to the School Board for functional expenses other than debt. Public safety programs experienced increased expenses of \$10.4 million (9.3%) mainly due to staffing new facilities, newly created positions and equipment purchases in the fire department and increases in personnel, fuel and retiree healthcare costs in the police department.

## **Business-type Activities**

Business-type activities increased the County's net assets by \$36.9 million, accounting for 52.2% of the total growth in the net assets of the County. Revenues for business-type activities increased \$15.6 million (20.1%) and total expenses increased by \$7.4 million (15.8%) when compared to the prior year. Key elements contributing to these results are as follows:

- ◆ Charges for services for the water and wastewater operations increased \$3.8 million (8.3%) over the prior year. \$1.1 million of the increase is attributable to an increase in billed consumption. \$2.4 million of the increase is attributable to reimbursements related to damages sustained during natural disasters.
- ◆ Capital grants and contributions for business-type activities increased overall by \$10.2 million (34.0%). Water connection fees increased \$1.5 million and developer contributions of water pipelines increased \$2.4 million in the current year compared to the prior year due to increased connection activity. Developer contributions of wastewater pipelines increased by \$6.2 million. In the current year, there were significant donations of trunk wastewater lines from developers, which are larger in diameter and cost more to construct. Capital contributions for Airport facilities decreased by \$0.9 million over the prior year because of decreased state and federally funded grant awards.
- ◆ Investment earnings and unrealized gains on investments of business-type activities increased by \$1.6 million (88.9%) due to increasing interest rates. The average interest rate earned by the County was 1.96% for the current year compared to 1.24% in the prior year.

## **School Board Activities**

School Board activities increased its net assets by \$4.6 million (100.0%). Key elements of these changes are as follows:

- ◆ Revenues increased \$1.9 million (0.4%) to \$472.8 million. This year, the County provided \$15.9 million, a decrease of \$36.2 million, to the School Board for the refunding of existing general obligation debt that was issued on behalf of the School Board. The County increased its funding of functional expenses by \$10.0 million. Grants and contributions increased \$27.4 million (40.6%) due primarily to receiving additional State Standards of Quality funding.
- ◆ Expenses decreased by \$6.5 million (1.4%) mainly due to a decrease in payments to the County. The payment to the County decreased by \$36.7 million primarily due to a \$36.2 million decrease in bonds refunded in the current year as compared to the prior year. This decrease was offset by increases in functional educational expenses. Compared to the prior year, functional expenses other than payments to the County increased by \$30.2 million with the major increase in the instructional category due to increased personnel costs.

## **FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

### **Governmental Funds**

The focus of the County's governmental funds is to provide information on near-term inflows and outflows and the balance of resources available for spending. Such information is useful in assessing the County's financing

requirements. In particular, unreserved, undesignated fund balance serves as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the County completed the year, its governmental funds reported a combined fund balance of \$220.8 million, an increase of \$8.0 million compared to the previous year. \$80.7 million (36.6%) of this amount constitutes unreserved fund balance, of which \$56.1 million is available for governmental spending and \$24.6 million is designated by management for tentative spending plans. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$80.9 million and total fund balance was \$141.1 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14.7% of total General Fund expenditures. Of unreserved fund balance, the undesignated amount of \$56.3 million represents 10.2% of total General Fund expenditures and exceeds the Board of Supervisors' target of 7.5%. Total fund balance represents 25.6% of General Fund expenditures.

Fund balance of the General Fund increased by \$26.4 million during the current fiscal year. Key factors in this change are as follows:

- ◆ Real estate tax revenues increased by \$21.0 million (10.7%) due to the increase of 11.5% in the assessed valuation of taxable real property. The real estate tax rate was \$1.07 per \$100 of assessed value and was effective for both the current and prior fiscal years. Other general property tax revenues increased \$5.4 million, mainly due to an increase of \$5.0 million in personal property taxes resulting from an increase of 12.1% in personal property tax assessments and an increase of \$0.5 million in penalties and interest which was impacted by the implementation of a new debt collection system. Including the PPTRA reimbursement from the Commonwealth, current tax collections were 97.20% of the total tax levy, an increase from the prior fiscal year's current tax collections of 96.87%. Total tax collections as a percent of total tax levy increased from 99.20% in the prior fiscal year to 99.50% in the current fiscal year.
- ◆ Other local taxes increased by \$4.7 million (5.5%) over the prior year. This increase was primarily due to an increase of \$2.2 million in the recordation tax resulting from a change in the Commonwealth's recordation tax rate, and sales and use taxes increased \$1.9 million due to increases in retail sales.
- ◆ Investment earnings and unrealized gain on investments increased by \$0.6 million (50.4%) due to increasing interest rates in the current year. The average yield on investments for the County in the current fiscal year was 1.96% compared to the three month U. S. Treasury Bill average of 2.27% and the Donoghues's Money Fund average of 1.79%. The average yield on investments in the prior fiscal year was 1.24%. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the County intends to hold until maturity.
- ◆ Charges for services increased \$1.7 million (7.6%) primarily due to increases in Treasurer's fees (\$0.3 million), traffic offense fees (\$0.2 million), and Waste and Resource Recovery landfill fees (\$0.5 million). The Treasurer's office increased administrative fees for collection of delinquent taxes and other charges from \$20 to \$30 and for taxes collected after a judgment fees were increased from \$25 to \$30. In the current year, the County amended its traffic offense ordinance to increase the minimum emergency response cost recovery fee from \$100 to \$250 per incident. Waste and Resource Recovery implemented the first year of a two year phased increase in the transfer station gate fee, an increase from \$5 to \$7 in the current year, and the biweekly refuse collection program implemented a new \$4 per month service charge.
- ◆ Revenue from other governments increased \$12.0 million (10.7%) due to an increase of \$4.2 million (11.4%) in personal property tax relief and an increase in state sales tax categorical aid of \$6.2 million (17.2%). Both the level of retail sales statewide and the proportion of the State's school children residing in the County impacts sales tax categorical aid. The Commonwealth increased the sales tax rate in the current year and as a result also increased the amount of sales tax distributed to localities from 1.00% to 1.25%.
- ◆ Overall, functional expenses of the General Fund (excluding education and debt service) increased by \$20.4 million (9.1%). Pension funding requirements attributed to a large increase in employee benefit expenses in each functional category. The pension funding level for County employees increased from a rate of 10% to 14.25%, an overall increase of 42.5% and costing approximately \$4.9 million. In addition, the County funded a 4% merit increase for employees.
- ◆ Public safety expenditures increased by \$9.1 million (8.7%). Fire department expenditures were up \$4.0 million (12.0%) over last year due to the addition of firefighters to staff a new fire station constructed in the current fiscal year and the first full year of expenditures at a fire station opened in the prior fiscal year. In

addition, an operational medical director was hired to provide oversight and consistency to the emergency medical services (EMS) system; a quality assurance coordinator was hired to provide review of all EMS care; and upgrades of rescue tools and cardiac monitors were purchased. Police department expenditures increased by \$2.2 million (5.8%) mainly due to increases in staffing, fuel prices and retiree healthcare expenses.

At year-end, the County's Capital Projects Fund had a total fund balance of \$39.4 million, of which \$23.0 million was reserved for encumbered contracts underway, \$16.2 million was reserved to pay future costs associated with County capital projects and \$0.2 million was reserved for future obligations. The School Capital Projects Fund had a total fund balance of \$39.3 million, of which \$35.9 million was reserved for encumbered contracts underway and \$3.4 million was reserved to pay future costs associated with School capital projects.

### **General Fund Budgetary Highlights**

The overall difference between the original budget and the amended budget for revenues and other financing sources reflected an increase of \$18.7 million (3.6%). Budget adjustments were made to various revenue sources and some of the major changes are summarized as follows:

- ◆ The budget for other local taxes increased by \$1.1 million for greater than anticipated receipts of recordation and transient occupancy taxes.
- ◆ The budget for miscellaneous revenue increased by \$1.1 million primarily due to third party recoveries for damages and natural disaster claims.
- ◆ The budget for recovered costs increased by \$2.0 million mainly due to receiving \$1.2 million from the Riverside Regional Jail Authority (RRJA) as a refund for per diem payments made by the County as a participating locality. RRJA generated these excess funds by selling beds to federal agencies, contracting with the State to hold inmates under the Jail Contract Bed program, and selling beds to non-member jurisdictions.
- ◆ The budget for categorical aid increased by \$6.1 million (10.9%) primarily due to an increase in the sales tax allocation for education from the Commonwealth in the amount of \$5.0 million. Due to a one-half cent increase in the state sales tax rate, the Commonwealth increased its allocation to the County after adoption of the fiscal year 2005 original budget. State aid for welfare also increased by \$0.7 million (19.1%). Due to increased demand for services and increases in spending levels in social service programs, the Commonwealth approved additional funding to assist families with day care needs and to assist families with daily cost of living expenses, medical care and other services in foster care and adoption programs.
- ◆ The original budget for other financing sources increased by \$5.2 million reflecting the decision during the year to sell bonds to refund existing debt.

The final amended budget for expenditures and other financing uses was greater than the original budget by \$59.5 million (11.3%). The increase in expenditure appropriations can be summarized as follows:

- ◆ The budget for transfers out increased by \$46.3 million. The budget for the transfers to the County Capital Projects Fund and the School Capital Projects Fund increased by \$25.6 million and \$13.7 million, respectively, mainly due to the appropriation of prior year construction reserves.
- ◆ The budget for health and welfare increased for mental health/mental retardation and substance abuse and for social services by \$0.5 million and \$1.1 million, respectively. The increase in mental health/mental retardation and substance abuse is primarily related to an appropriation of a settlement received from a Medicaid broker and additional funding for merit increases and equipment. The social service increase was primarily due to additional funding for merit increases and to appropriating additional state funding for assistance to families with day care needs and to assist families with daily cost of living expenses, medical care and other services in foster care and adoption programs.
- ◆ The budget for public safety increased by \$4.0 million primarily due to increases in the fire, police and sheriff and jail operations. A \$1.1 million increase in the fire department budget resulted from appropriating additional funds for merit increases and the purchase of emergency equipment. A \$1.3 million increase in the police department budget included using asset forfeiture revenue to fund training and the purchase of equipment and software and additional funding for merit increases. The \$1.1 million increase in the jail operations budget covered increased expenditure costs. Increases in the number of arrests and convictions continue to contribute to the high populations at both the local and regional jails.
- ◆ The original budget for other financing uses increased by \$5.2 million reflecting the decision during the year to refund existing debt.



Actual revenues and other financing sources exceeded the amended budget by \$18.9 million. Increased assessed values of real property resulted in a positive variance of \$6.6 million in real estate taxes. Higher than expected personal property tax collections by the County and PPTRA reimbursements from the Commonwealth resulted in a \$4.5 million difference of actual to amended budget. Other local taxes collected exceeded the amended budget by \$5.3 million: \$2.4 million in recordation taxes due to a change in the Commonwealth's recordation tax rate; \$1.4 million in local sales and use taxes because retail sales in the region increased greater than expected; \$0.7 million in business license taxes; and \$0.5 million in higher than expected consumer utility taxes.

Actual expenditures and other financing uses were \$60.6 million less than the amended budget amount. Of this amount, \$51.9 million is because less than budgeted amounts were transferred out to other funds. Transfers to the School Board Operating Fund and the School Board Capital Projects Fund accounted for \$22.8 million less than the budgeted amount due to higher than expected State funding received directly by the School Board and with less spending on capital and maintenance projects throughout the fiscal year. The transfer to the County Capital Projects Fund was \$28.6 million less than the budgeted amount due to not transferring all construction reserves. Expenditures in community development were \$1.8 million less than budgeted due primarily to restructuring the approach to land acquisition at Meadowville Technology Park. In the current year, the County exercised its option to acquire property by entering into a support agreement to pay the debt service on revenue bonds issued by the IDA for the acquisition. Through the restructuring, current year funding of \$1.2 million for land acquisition at the Meadowville Technology Park is being reserved for future years' debt service payments and associated costs of the revenue bonds (see Note 9G).

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Overview**

Governmental Accounting Standards Board Statement 34 requires the issuing entity to report "on behalf" debt and debt service. The operational relationship between the County and School Board component unit related to capital assets and debt involves several transactions between the two entities that are presented in the statements to meet reporting requirements. Brief descriptions of those transactions are:

- ◆ The School Board can neither levy taxes nor incur debt under Virginia law. The County issues debt "on behalf" of the School Board, which is recorded as a liability of the County's governmental activities. In both the prior and current years, proceeds from debt issued to refund existing debt issued "on behalf" of the School Board were recorded in the County's General Fund and an amount equal to the proceeds received from refunding was then provided to School Board operations for the purpose of funding the retirement of existing debt.
- ◆ The County's charter states that title to all real property of the school system shall be vested in the County of Chesterfield. The County provides the School Capital Projects Fund with funding to purchase and/or construct real property (land, buildings, improvements other than buildings, and construction in progress) for use in school operations. Due to the charter, the value associated with the purchase and/or construction of School Board real property is reported as capital assets in the governmental activities of the County. Depreciation and accumulated depreciation related to School Board real property is reported in the County's governmental activities within the appropriate government-wide statements.
- ◆ The County's budgeting process provides for the School Board component unit to receive funding from the County. The School Board is responsible for allocating funding to cover debt service related to "on behalf" debt and is presented as debt service on the School Board's Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual. However, for the Statement of Revenues, Expenditures, and Changes in Fund Balances, the School Board presents a payment to the primary government in an amount equal to debt service payments and payments to escrow agents.

### **Capital Assets**

At the end of the fiscal year, the County had invested \$1.3 billion in a broad range of capital assets, including public safety buildings, park facilities, libraries, and water and wastewater facilities (see Table 3). This amount represents a net increase of \$92.4 million (7.9%) over the prior year.

**TABLE 3**  
**Chesterfield County's Capital Assets**  
**June 30, 2005 and 2004**  
**(net of depreciation, in millions of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>Total Percentage Change</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005-2004</u></b>
<b>Non-depreciable assets:</b>							
Land	\$ 44.5	\$ 34.3	\$ 3.2	\$ 3.2	\$ 47.7	\$ 37.5	27.2%
Assets held for resale	9.2	-	-	-	9.2	-	100.0%
Construction in progress	88.4	39.1	23.5	18.6	111.9	57.7	93.9%
<b>Depreciable assets:</b>							
Buildings	515.9	522.3	95.3	96.6	611.2	618.9	(1.2%)
Improvements other than buildings	22.4	22.7	18.2	18.6	40.6	41.3	(1.7%)
Machinery and equipment	48.9	48.7	376.3	349.7	425.2	398.4	6.7%
Infrastructure	23.5	23.1	-	-	23.5	23.1	1.7%
<b>Total</b>	<b><u>\$ 752.8</u></b>	<b><u>\$ 690.2</u></b>	<b><u>\$ 516.5</u></b>	<b><u>\$ 486.7</u></b>	<b><u>\$ 1,269.3</u></b>	<b><u>\$ 1,176.9</u></b>	<b>7.9%</b>

This year's major capital asset additions and increases in construction in progress included:

- ◆ Acquisition of land for \$10.1 million for the construction of two new high schools
- ◆ Completion of Utility projects:
  - Falling Creek Wastewater Treatment Plan – digestion equipment – \$1.8 million
  - Midlothian water line – phase II - \$2.9 million
  - Chesdin Pump Station - \$1.3 million
  - Improvements related to the Safe Water Drinking Act - \$2.3 million
  - Ruffin Mill water line – phase II – \$1.6 million
  - Bermuda Orchard water line – \$2.1 million
- ◆ Acquisition of Cloverleaf Mall property for resale to a developer - \$9.2 million
- ◆ Completion of Reams Road Fire Station – \$3.3 million
- ◆ County construction in progress additions:
  - Financial Management System – \$3.0 million
  - Police Evidence Storage Building - \$1.3 million
  - Replacement of Main Jail - \$10.3 million
  - Community Development Building - \$3.9 million
- ◆ School Board construction in progress additions:
  - Greenfield Elementary Renovations - \$3.2 million
  - Manchester High/Specialty Renovations - \$2.1 million
  - Cosby Road High School - \$19.3 million
  - Chesterfield Technical Center Renovations - \$3.1 million

The amount of capital assets (net of accumulated depreciation) used by the School Board in its operations was \$424.2 million of the total value of capital assets of the governmental activities.

The County's fiscal year 2006 capital budget projects spending \$124.5 million for capital projects, which includes \$61.7 million for the primary government and \$62.8 million for the School Board. Principal projects for the primary government include renovations of the five-store administration building, expansion/renovation of the Smith Wagner building, expansion of the Meadowdale Library, the Public Safety Training Center at Enon and various water and wastewater expansion and replacement projects including equipment upgrades at the Proctor's Creek Wastewater Treatment Plant. School projects are principally for school building additions and improvements including two new elementary schools. The County plans to issue additional debt to finance portions of these and future projects as identified in the Capital Improvement Program 2006-2011. More detailed information about the County's capital assets is presented in Note 8 to the financial statements.

### Long-term Debt

At year-end the County had \$473.2 million in bonds and leases outstanding, an increase of 5.2% compared to last year (see Table 4). More detailed information about the County's long-term liabilities is presented in Note 9 to the financial statements.

The County issued new debt during the year totaling \$61.0 million in the form of general obligation bonds, certificates of participation, capital leases, a taxable redevelopment facility note and a support agreements. In addition, to take advantage of lower interest rates, the County issued \$19.5 million of general obligation refunding bonds to advance refund \$12.9 million of outstanding Series 1998A bonds and \$7.4 million of Series 1999A bonds. By refinancing this debt, the County reduced its debt service payments by \$1.1 million over the next thirteen years and obtained an economic gain of \$0.9 million. The County issued \$17.2 million in general obligation bonds to fund various projects including the Meadowdale Library expansion and various School projects. The County also issued \$14.5 million in certificates of participation for the construction of a Community Development building, a Police/Evidence Storage Building and an Airport hangar project and for acquisition of a Financial Management System. The County issued a taxable redevelopment facility note for \$9.2 million to fund the acquisition of the Cloverleaf Mall property that it intends to resell to a developer for redevelopment. The County entered equipment lease purchase agreements for \$1.9 million. The County also entered into a support agreement for \$18.1 million as a pledge to the IDA for the revenue bonds it issued to acquire property in the Meadowville Technology Park.

**TABLE 4**  
**Chesterfield County's Outstanding Debt**  
**June 30, 2005 and 2004**  
**(in millions of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>Total Percentage Change</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005-2004</u></b>
General obligation bonds, net (backed by the County)	\$ 352.4	\$ 365.2	\$ -	\$ -	\$ 352.4	\$ 365.2	(3.5%)
Revenue bonds, net (backed by user fee revenues)	-	-	23.7	27.8	23.7	27.8	(14.7%)
State literary fund loans	2.1	3.4	-	-	2.1	3.4	(38.2%)
Support agreement	18.1	-	-	-	18.1	-	100.0%
Certificates of participation and capital leases	<u>75.1</u>	<u>52.0</u>	<u>1.8</u>	<u>1.4</u>	<u>76.9</u>	<u>53.4</u>	44.0%
<b>Total</b>	<b><u>\$ 447.7</u></b>	<b><u>\$ 420.6</u></b>	<b><u>\$ 25.5</u></b>	<b><u>\$ 29.2</u></b>	<b><u>\$ 473.2</u></b>	<b><u>\$ 449.8</u></b>	<b>5.2%</b>

The amount of "on behalf" debt outstanding related to School Board activities is \$287.6 million of the total outstanding debt of the governmental activities.

A key debt policy established by the County's Board of Supervisors is the ratio of debt service costs to general government expenditures, which was 7.0% for the current year comparing favorably to the policy target of 10.0%.

The County's financial standing and management practices have resulted in the award of an Aaa bond rating from Moody's Investors Service, an AAA bond rating from Fitch Investors Service Inc., and an AAA from Standard & Poor's Corporation for general obligation bonds and water and sewer revenue refunding bonds.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The County's unemployment rate remained relatively unchanged at 3.2% in 2004 compared to 2003, and was 3.0% in July 2005. Chesterfield's 2004 unemployment rate of 3.2% remained below the Commonwealth's 3.7% unemployment rate for the same period. At the state and regional levels, the latest economic data indicates that the economy remains fairly solid and the near-term outlook is positive. Retail sales continued to improve in the region during calendar year 2004, increasing 4.6% as of December 2004, when compared to 2003. Local sales tax collections were strong in the current fiscal year. Looking forward, continued low interest rates and stronger employment are expected to continue to support new construction and existing home sales in the region's real estate market.

The County developed a Biennial Financial Plan for fiscal years 2005 and 2006 that was adopted on April 14, 2004, whereby the resolution for the first year of the biennium contained appropriated first-year expenditures and approved second-year expenditures. For the second year of the biennium, necessary amendments were made to the approved budget and the Board of Supervisors (Board) adopted and appropriated the second-year spending plan on April 13, 2005.

The fiscal year 2006 budget, totaling \$953.9 million, represents an increase of 7.4% over the fiscal year 2005 budget. The fiscal year 2006 budget includes 74 new positions representing an increase of 2.0% over the fiscal year 2005 adopted staffing levels of 3,396 full time employees. With adoption of this budget, the Board has set in place a fiscally responsible plan to provide property owners relief from rising real estate assessments along with targeted relief for the elderly and disabled. The combined benefit to the citizens of these actions exceeds \$1.6 million in fiscal year 2006. This budget accommodates an anticipated reduction in the real estate tax rate effective January 1, 2006. The estimated cost of this reduction in fiscal year 2006 is \$1.1 million. Future year real estate revenue projections have been conservatively estimated based on the Board's goal to reduce the \$1.07 tax rate by \$0.05 to \$0.07 over the next several years provided economic conditions, growth in assessments and state and federal funding levels are favorable. Targeted tax relief initiatives consist of an expanded tax relief for the elderly and disabled program and a newly-created lower personal property tax rate for specially equipped vehicles for the handicapped and disabled. The estimated benefit of these changes for the taxpayers is estimated at in excess of \$0.5 million in fiscal year 2006.

Beginning in tax year 2006, as a result of legislation passed during the 2004 General Assembly session (and subsequent amendments) to reduce a projected state budget deficit, the Commonwealth will no longer reimburse localities for PPTRA at the current rate of 70%. Rather, the Commonwealth will cap statewide reimbursements at \$950 million with each locality receiving a percentage based on tax year 2004 reimbursements. At this time, it is not known how the County will handle the change in state funding for the PPTRA program.

Difficult choices were made as the Biennial Financial Plan for fiscal year 2005 and fiscal year 2006 was developed, and it represents a balance between available resources and needs. This balance was achieved using the objectives and priorities established by the Board and it is consistent with established countywide strategic goals.

### **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chesterfield County Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.